

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky)
Mountain Power for Authority to Increase)
Its Retail Electric Utility Service Rates in)
Utah and for Approval if Its Proposed)
Electric Service Schedules and Electric)
Service Regulations, Consisting of a)
General Rate Increase of Approximately)
\$161.2 Million Per Year, and for Approval)
Of a New Large Load Surcharge)

Docket No. 07-035-93

PRE-FILED SURREBUTTAL
TESTIMONY OF
HELMUTH W. SCHULTZ, III
FOR THE COMMITTEE OF
CONSUMER SERVICES

May 23, 2008

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**

3 **ADDRESS.**

4 A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant,
5 licensed in the State of Michigan, and a Senior Regulatory Analyst in the
6 firm of Larkin & Associates, PLLC, with offices located at 15728
7 Farmington Road, Livonia, Michigan 48154.

8

9 **Q. DID YOU SUBMIT PREFILED DIRECT TESTIMONY IN THIS DOCKET?**

10 A. Yes. My prefiled direct testimony addressed various concerns with Rocky
11 Mountain Power's (Company or RMP) requested payroll, employee
12 benefits, relocation costs and injuries and damages expense included in
13 the Test Year.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

16 A. My surrebuttal testimony will respond to the rebuttal testimony of RMP
17 Company witnesses Erich Wilson and Steven McDougal regarding the
18 various requested components of payroll, medical benefits, pension
19 administration cost, other salary overhead benefits, relocation costs and
20 injuries and damages. Upon reviewing the rebuttal testimonies, I continue
21 to recommend the adjustments delineated in my prefiled direct testimony
22 on these areas, with one exception. After evaluating the testimony of
23 Steven McDougal I am not recommending an employee complement

24 adjustment and the related flow through adjustments to payroll taxes and
25 employee benefits. However, I still do not agree with how the Company
26 determined the Test Year payroll complement, as will be discussed in
27 further detail in this surrebuttal testimony.

28

29 **EMPLOYEE COMPLEMENT**

30 **Q. HAVE YOU REVIEWED THE COMPANY'S REBUTTAL TESTIMONY**
31 **REGARDING THE EMPLOYEE COMPLEMENT FOR THE TEST YEAR**
32 **ENDED DECEMBER 31, 2008?**

33 A. Yes. This issue is addressed in the rebuttal testimony of Steven
34 McDougal. In my initial direct testimony, I recommended that 2008 test
35 year employee levels contained in the Company's filing be reduced by 57
36 positions. In rebutting my recommendation, Mr. McDougal first suggests
37 that my analysis is in error because it is based on two points in time and
38 not the entire base period. Mr. McDougal then claims that I need to reflect
39 the reduction in employee headcount associated with the MEHC
40 severance program when I make my comparison of employees based on
41 an actual employee count. He further contends that if my adjustment was
42 calculated properly, an increase in the revenue requirement would be
43 required.

44

**Q. PLEASE ADDRESS THE ISSUE REGARDING THE FULL TIME
EQUIVALENT (FTE) EMPLOYEES THAT ARE ULTIMATELY
REFLECTED IN THE TEST YEAR.**

A. As stated in my prefiled direct testimony, the Company did not specifically identify within the filing exhibits or in testimony the number of employees included in the Test Year. The filing and responses to data requests suggested that the Base Year payroll used by the Company was based on an average employee complement of 5,704.5 FTEs. That average was purportedly net of the reductions for transition employees during the Base Year; however, the Base Year average employee complement of 5,704.5 employees still includes some of the transition employees. This is demonstrated in Exhibit RMP___(SRM-1R-RR). In this rebuttal exhibit provided by Mr. McDougal, he recalculated the Base Year complement after fully taking into consideration the reductions for the MEHC transition. Mr. McDougal's resulting adjusted base year employee complement was lower than that assumed in my analysis and lower than that suggested in the employee complement numbers presented in the filing and responses to data requests. In conducting my analysis of employee levels and in determining my recommended adjustment, I was unaware that there was a problem with the filing in that it did not fully reflect the impact on the employee count in the information supplied.

67 **Q. GIVEN THE ADDITIONAL INFORMATION PROVIDED IN MR.**
68 **MCDUGAL'S REBUTTAL TESTIMONY REGARDING THE**
69 **EMPLOYEE COMPLEMENT, DO YOU CONTINUE TO RECOMMEND**
70 **THE 57 EMPLOYEE REDUCTION CONTAINED IN YOUR PREFILED**
71 **DIRECT TESTIMONY?**

72 A. I do not dispute the employee complement calculation included in Mr.
73 McDougal's rebuttal testimony. Based on this rebuttal testimony, the
74 recommended reduction for employees included in my prefiled direct
75 testimony on Exhibit CCS 6.1 should not be made.
76

77 **Q. DO YOU STILL HAVE CONCERNS WITH THE EMPLOYEE LEVEL**
78 **CONTAINED IN THE 2008 TEST YEAR?**

79 A. Yes. The Base Year year-end employee level is lower than the adjusted
80 average Base Year employee level. As a result, the Company's 2008 test
81 year effectively includes 33.9 more employees than what existed at June
82 30, 2007, the end of the Base Year. The Company has provided no
83 testimony justifying the addition of any FTEs above the end of the Base
84 Year level. The Company has the burden of proof to justify an increase in
85 the employee complement. I recommend that the Commission require the
86 Company to provide justification in future filings for any increases in the
87 employee complement above the end of the Base Year employee level.
88

89 **EMPLOYEE BENEFITS**

90 **Q. DOES YOUR CHANGE OF POSITION ON THE EMPLOYEE**
91 **COMPLEMENT ADJUSTMENT AFFECT YOUR EMPLOYEE BENEFIT**
92 **ADJUSTMENT?**

93 A. Yes. The adjustment contained in my prefiled direct testimony and shown
94 on CCS Exhibit 6.6 assumed that with a reduction in employees there
95 would be a corresponding reduction in employee benefit costs. The
96 adjustment as originally proposed should not be made since I am no
97 longer recommending a reduction to the employee complement.

98

99 **MERIT ADJUSTMENT**

100 **Q. RMP WITNESS ERICH WILSON PRESENTED REBUTTAL TESTIMONY**
101 **REGARDING YOUR RECOMMENDED REDUCTION TO MERIT PAY**
102 **INCREASES. IS THERE VALIDITY TO MR. WILSON'S ARGUMENTS**
103 **REGARDING MERIT INCREASES?**

104 A. No. Mr. Wilson did not provide any information that would change my
105 original recommendation. As recommended in my prefiled direct
106 testimony, total bare labor dollars should be reduced by \$898,020. Total
107 Company expense should be reduced \$658,993 and Utah expense should
108 be reduced \$281,711.

109

110 **Q. PLEASE EXPLAIN AGAIN WHY YOU MADE A MERIT ADJUSTMENT?**

111 A. The Company proposed that the Base Year compensation be annualized
112 for 2007 and inflated for 2008 by various percentage increases. The
113 Company's filing increased the exempt and non-exempt compensation by
114 3.5% effective January 2008. In reviewing the filing and the information
115 supplied in response to data requests it is my opinion that the 3.5% is not
116 justified. My recommended adjustment used an increase of 3% in 2008
117 instead of the 3.5%. The 3% is based on the Company's union increases.
118 The 3% adjustment may be conservative and a greater adjustment might
119 be considered because there is no evidence that even a 3% increase is
120 warranted.

121

122 **Q. ARE THERE ANY STATEMENTS MADE BY MR. WILSON IN HIS**
123 **REBUTTAL TESTIMONY THAT ARE INACCURATE?**

124 A. Yes. Mr. Wilson contends that I did not ask any questions about the
125 compensation surveys. As indicated in my prefiled testimony, I did ask
126 questions about the compensation surveys. Next, Mr. Wilson stated that
127 he was the Company representative interacting with me "on the day of the
128 visit" suggesting that my review of the studies occurred in a single day.
129 The fact is I spent most of my three days on-site reviewing the studies.

130

131 **Q. PLEASE ADDRESS MR. WILSON'S CLAIM THAT YOU ONLY**
132 **REVIEWED SOME OF THE STUDIES.**

133 A. Mr. Wilson is correct that I did not review in detail all of the studies that the
134 Company had. However, I would like to point out that it is my opinion that
135 the Company limited the scope of my review.
136

137 **Q. HOW WAS THE SCOPE OF YOUR REVIEW LIMITED?**

138 A. The Company was requested in MDR 2.20 to provide a list of studies the
139 Company has and indicate which studies were used in projecting the
140 compensation for the Test Year. The response did not list the studies and
141 it did not identify what studies were used in projecting Test Year
142 compensation. Instead the response stated a wide range of studies are
143 used and would be made available on-site. The first studies supplied for
144 review were some volumes of the 2006-2007 Watson Wyatt studies that
145 were selected by the Company. After reviewing the initial studies supplied
146 by the Company, I made two trips to another floor to select other studies
147 for review. It was during one of those visits that I inquired of Mr. Wilson
148 about some job descriptions and whether the Company had the studies in
149 electronic or some other form. I also inquired as to whether I could
150 review any of the various studies right where they were stored and the
151 response was "no". All the studies reviewed showed limited signs of
152 usage. I did question whether it was known what studies were used the
153 most, and an employee nearby voluntarily indicated that the Hewitt studies
154 were preferred by her, but that was only her preference.
155

156 Mr. Wilson is correct that I did not review all of the studies, but to review
157 all the studies in the time allowed would not be practical. That is why it is
158 important for the Company to identify the studies that were relied on the
159 most as requested in early discovery. As indicated above, the Company
160 did not identify any specific studies relied on when requested to do so. It
161 is only in Company rebuttal that it indicated the Mercer, Hewitt and Towers
162 Perrin studies were the most heavily relied on. Withholding that
163 information when specifically requested at the very beginning of discovery
164 is, in my opinion, a Company imposed scope limitation.
165

166 **Q. WHAT ABOUT MR. WILSON'S EXPLANATION THAT THE STUDIES**
167 **REVIEWED BY YOU MAY NOT HAVE BEEN REFERRED TO HEAVILY**
168 **OR AT ALL AND THAT THE COMPANY MAY HAVE REVIEWED THE**
169 **STUDY IN ELECTRONIC FORM?**

170 A. First, the Company supplied the first selection of studies to be reviewed,
171 and they were not even the most recent studies available from that
172 vendor. If the initial studies selected and supplied to me were not referred
173 to heavily I would have to question the Company's rationale for providing
174 that selection. Next, Mr. Wilson states that the Company utilized
175 Market_Pay.com. The Company was requested in CCS 20.13 to provide
176 a listing of the various studies acquired and their costs and
177 Market_Pay.com was not on the listing. It is a major concern that the use
178 of the electronic studies was never mentioned in responses to discovery

179 or when I made an inquiry on-site. Also as mentioned earlier the
180 Company was requested to identify the studies that they utilized and they
181 failed to identify any at that time.

182

183 **Q. WOULD YOU COMMENT ON MR. WILSON'S CRITICISM OF YOUR**
184 **ANALYSIS OF COMPENSATION LEVELS?**

185 A. The critique of my selection of employees and my comparisons is without
186 merit. I have prepared an evaluation of the Company's compensation
187 levels and have evidence supporting that evaluation. The Company,
188 despite being requested to provide support for its evaluation of
189 compensation, did not do so. The Company has not provided any
190 testimony and/or documentation that would justify increasing the exempt
191 and non-exempt employee compensation by 3.5%.

192

193 **Q. WOULD YOU IDENTIFY WHERE THE COMPANY WAS REQUESTED**
194 **TO PROVIDE SUPPORT AND IT FAILED TO DO SO?**

195 A. The response to MDR 2.20 indicated that assessments were conducted
196 for each job code, yet the salary surveys did not show signs of use that
197 would support the assertion that the surveys were utilized and there was
198 no documented evidence that such an analysis occurred. The job master
199 list provided in response to CCS 4.9 identified the Company's job codes
200 and titles with pay rate ranges and the percentage for target incentive
201 compensation. However, the listing made no references of comparisons

202 to any studies. In a review of actual compensation levels by job code at
203 the Company offices I could only identify twelve of the twenty positions
204 randomly selected from the response to CCS 4.9.

205

206 As evidenced in the response to CCS 4.3, the Company had no formal
207 analysis of an employee compensation comparison to any affiliates. As
208 indicated in my prefiled testimony the Company claimed a comparison
209 was made to MEHC but no formal analysis existed and there were no
210 formal notes on the analysis.

211

212 The Company was asked in CCS 20.8 to provide any documents and/or
213 workpapers that would identify the job codes that were analyzed and/or
214 evaluated during the calendar year 2007. The response stated "The
215 Company evaluates jobs on an as needed basis and does not have any
216 formal tracking mechanism for all the jobs that are evaluated during the
217 year." In response to CCS 20.9 the Company stated that it does not have
218 a tracking mechanism that links its jobs with those within the Watson
219 Wyatt study. In response to CCS 20.12 the Company indicated that it
220 evaluated approximately 65% of the 840 job codes listed in the response
221 to CCS 9.15, but as indicated in response to CCS 20.8, there is no
222 documented evidenced of this evaluation being made. Without any
223 documentation to support the claim that its compensation levels are

224 reasonable and the increases are appropriate, the Company's request
225 should be adjusted as recommended.

226

227 **Q. MR. WILSON STATES THAT THE BASIS FOR ITS USE OF A 3.5%**
228 **NON-UNION INCREASE IS FROM THE RESULTS OF RESEARCH**
229 **DONE BY THE COMPANY AS SHOWN IN EXHIBIT RMP__(EDW-3R-**
230 **RR). IS THAT SUFFICIENT JUSTIFICATION FOR A 3.5% MERIT**
231 **INCREASE?**

232 A. No. First and foremost that assertion appears to contradict Mr. Wilson's
233 prefiled direct testimony at pages 3 and 4 where he states that the base
234 pay and incentive pay has to be considered together. Second, the fact
235 that other companies may be offering the merit increases indicated does
236 not justify an increase of that level for this Company's employees. If the
237 listed companies are offering increases that average 3.5%, it must be
238 determined that based on Company job compensation levels whether
239 employees need to receive a comparable increase in compensation. As
240 indicated previously, the Company has not provided any documentation
241 that shows a 3.5% increase is required to provide Company employees
242 with comparable compensation.

243

244 **Q. DO YOU AGREE THAT MERIT INCREASES FOR NON-UNION**
245 **EMPLOYEES CANNOT BE COMPARED TO UNION INCREASES?**

246 A. No. That is, in my opinion, a blind approach to determining what level of
247 increase is reasonable. While there are some differences, negotiated
248 union increases should not be ignored when evaluating what type of
249 increase is granted to non-union employees. For example, while Mr.
250 Wilson correctly states that union negotiations take into consideration
251 work conditions, the non-union compensation must factor in the fact that
252 incentive compensation is available. When going into negotiations, the
253 unions will certainly utilize what level of increase the non-union employees
254 were granted. Therefore, it would only be appropriate for non-union wage
255 increases to take into consideration what is considered a reasonable
256 compensation based on negotiations. Absent supporting documentation
257 that would justify the increases proposed by the Company, the most
258 supportable alternative other than no increase would be the union
259 increase.

260

261 **Q. DO YOU BELIEVE THAT THE COMPANY SHOULD BE REQUIRED TO**
262 **PROVIDE JUSTIFICATION FOR MERIT INCREASES FOR NON-UNION**
263 **EMPLOYEES?**

264 A. Yes. To allow the Company a 3.5% increase based simply on the
265 representation that it has properly analyzed compensation levels without
266 providing any supporting documentation of that analysis would be contrary
267 to the burden of proof requirement that is supposed to apply to utilities in a
268 rate proceeding. It would be a great disservice to ratepayers to say that

269 all the Company has to do to justify a cost is say, trust me the number is
270 right.

271

272 **OVERTIME ADJUSTMENT**

273 **Q. WHAT IS THE COMPANY'S RESPONSE TO YOUR RECOMMENDED**
274 **ADJUSTMENT TO OVERTIME EXPENSE?**

275 A. The Company opined that with leaner staff levels it projects that more
276 overtime will be required than in the past.

277

278 **Q. IS THE COMPANY'S RESPONSE SUFFICIENT TO CHANGE YOUR**
279 **RECOMMENDATION TO ADJUST OVERTIME EXPENSE?**

280 A. No. The Company did not rebut my argument for adjusting overtime.
281 Even though my recommendation hinged for a large part on the fact that
282 2006 and 2007 overtime increases were storm related and capital related,
283 the Company only addressed the overtime by stating that the decrease in
284 employees will increase overtime. If there was merit to the Company's
285 argument, the reverse would have to be true when the employee
286 complement increases. Referring back to Docket 06-035-21, the
287 response to MDR 22, Supplement 1 in that case showed a significant
288 increase in employees between 2003 and 2004 and more moderate
289 increase in employees in 2005. However, the overtime for 2004 was only
290 6.4% more than 2003 and the 2005 overtime was only 1.4% greater than
291 2004. Overall, the increases were slight, but the fact remains the

increases occurred with an increase (not decrease) in employees. The significant change in overtime in 2006 and 2007 was the result of significant storms that occurred, and the Company has furnished no evidence to rebut the assertion that overtime was influenced by the storms and not a decrease in employees. The response to CCS 9.12 refers to the “storm of the century” that occurred in December of 2007. It would be inappropriate to assume the “storm of the century” will reoccur in the Test Year.

Q. WHY SHOULD THE COMMISSION ADOPT YOUR RECOMMENDATION?

A. The overtime increased moderately from 2003 through 2005 despite significant changes in the employee complement. The significant increase in 2006 and 2007 overtime the Company has attributed to some extent to storms that we know occurred and that we know were significant. The Company’s claim regarding the impact on overtime resulting from the decline in employees is not supported by any evidence, ignores the facts and should be disregarded. My proposed adjustment that reduces overtime \$6,181,955 and that reduces total Company expense and Utah expense \$4,536,499 and \$1,939,292, respectively, is reasonable and fair. It is fair because it allows for an increase in overtime commensurate with pay increase on an annual basis for a normal level of overtime.

315 **INCENTIVE COMPENSATION**

316 **Q. HAS MR. WILSON RAISED ANY VALID ARGUMENTS IN HIS**
317 **REBUTTAL TESTIMONY THAT WOULD CHANGE YOUR**
318 **RECOMMENDATION TO ADJUST INCENTIVE COMPENSATION?**

319 A. No. I still believe that the Company's target goals are questionable, the
320 target percentage for employees is considered excessive, and the
321 Company has not justified the requested level of spending.

322

323 **Q. WHAT IS QUESTIONABLE ABOUT THE GOALS SET BY THE**
324 **COMPANY?**

325 A. Incentive compensation is compensation that is supposedly at risk. In his
326 direct testimony Company witness Wilson stated that "it is expected that
327 the target incentive level, as set by the competitive market, will be
328 achieved on a year-after-year basis and therefore paid at that level." It is
329 a contradiction of the at risk pay theory to say that pay is at risk but it is
330 assumed that it will be paid "year-after-year."

331

332 Mr. Wilson emphasizes the apparent contradiction with at risk pay when
333 he states in his rebuttal to Mr. Garret that "reducing incentive costs will
334 result in employees being underpaid." That statement also suggests that
335 incentive compensation is not compensation that is at risk but
336 compensation that is expected. Incentive compensation to be reasonable
337 and allowed must be compensation that is only paid when employees

338 perform at a level that is over and above the normal expectations of the
339 job.

340

341 **Q. WHAT IS MEANT BY PERFORMANCE AT A LEVEL THAT IS OVER**
342 **AND ABOVE THE NORMAL EXPECTATIONS OF THE JOB?**

343 A. A person becomes an employee with the expectation that he will be
344 required to perform specific duties. The Company provides payment to
345 that employee in the form of base pay for those expected services. It is
346 not appropriate to provide incentive compensation to that employee for
347 completing the base pay services. For example Mr. Wilson provided an
348 exhibit of various incentive objectives in Exhibit RMP__(EDW-5R-RR). On
349 page 1 there is an objective that says the employee will "Promptly report
350 hazardous conditions, incidents and/or near misses." It would seem only
351 natural that a normal job requirement for a manager would be to promptly
352 report hazardous conditions. It is unclear how accomplishing that
353 objective is justification for incentive compensation. Another example is
354 on page 7 of his exhibit which indicates that the dispatch supervisor is to
355 operate the transmission system in a safe and reliable manner. That
356 sounds like an expected duty for a dispatch supervisor. On page 9, it
357 indicates the environmental Engineering Manager's performance is
358 measured by delivering a net OMAG budget and by delivering the
359 transmission engineering reports as required by the engineering director.
360 It seems reasonable that a manager's normal job requirements would

include delivering required reports. A review of the objectives and measurements in Exhibit RMP__(EDW-5R-RR) provides additional evidence that the Company has not established goals that require an incentive to perform and that compensation is not at risk.

Q. WHY DID YOU REFERENCE THE OMAG BUDGET IN YOUR RESPONSE?

A. Mr. Wilson claims on page 19 that “none of the incentive pay for which the Company seeks recovery is tied to financial goals”. The O&M budget is a goal for the incentive compensation plan. The Company is required to provide assurances during its financial audit that controls exist and one common goal is the existence of a budget. To assert that budgets are not financial is in total contradiction to any accounting theory. Banks consider budgets and forecasts when evaluating loans. Mr. Wilson is not correct when he states that there are no financial goals tied the incentive compensation that the Company is seeking to recover in rates.

Q. DOES MR. WILSON SUFFICIENTLY ADDRESS YOUR CONCERNS WITH THE GOALS SET BY THE COMPANY?

A. No. Mr. Wilson had a very limited discussion regarding the requirements that I questioned in my prefiled direct testimony. He does not address my concerns that the Company did not set goals that required them to exceed past accomplishments, especially with goals like SAIDI and SAIFI.

384

385 **Q. IS MR. WILSON CORRECT WHEN HE STATED THAT YOU PROVIDE**
386 **NO SUPPORT FOR YOUR CLAIM THAT TARGET PAY LEVELS ARE**
387 **EXCESSIVE?**

388 A. No. My prefiled testimony has 13 lines discussing specifically that the
389 incentive percentage rate ranged from a low of 4% to a high of 75% with a
390 majority of the incentive rates in the 10% to 15% range. I indicated that
391 based on the Company provided studies I reviewed, the rates were high.
392 My testimony then continued by stating that the Company provided no
393 documented evidence that would support that its levels were reasonable
394 when factoring the incentive compensation. Mr. Wilson provided no
395 rebuttal to show that my testimony was not accurate. To further support
396 my testimony, the response to Company data request 4.3 to the
397 Committee shows that based on a Company provided study that I
398 analyzed, 9 of 14 jobs (64%) selected for review had an incentive rate
399 below 10% when considering all companies. If the comparison is limited
400 to utilities only, then 7 of the 14 jobs (50%) selected were 10% or lower.
401 That compares to only 18 of 650 (2.8%) of the Company's job codes listed
402 in the response to CCS 4.9 being below 10%. The 2.8% is significantly
403 less than a majority of 14 sample jobs selected in my review.

404

405 **Q. SHOULD THE COMMISSION ADOPT YOUR RECOMMENDED**
406 **ADJUSTMENT FOR INCENTIVE COMPENSATION?**

407 A. At a minimum the Commission should adopt my recommendation. As
408 stated in my prefiled direct testimony, justification may exist for reducing
409 the incentive compensation even more because the Company failed to
410 justify its request at that time, and even with its opportunity to provide
411 additional justification in rebuttal testimony, the Company has fallen far
412 short of providing any documented evidence to meet the required burden
413 of proof. The Company's claim that the target amount needs to be
414 allowed to maintain competitiveness in the market is not supported by
415 documentation. Compensation may be referred to as incentive
416 compensation but it is not truly incentive compensation if it does not
417 require employees to perform at levels that are over and above levels that
418 have previously been achieved.

419

420 **MEDICAL COSTS**

421 **Q. DID THE COMPANY PROVIDE ANY JUSTIFICATION THAT WOULD**
422 **CHANGE YOUR RECOMMENDATION THAT THE COMPANY'S**
423 **REQUESTED MEDICAL COST BE REDUCED?**

424 A. No. Mr. Wilson simply states that my approach for projecting health care
425 costs is not appropriate because it is based on 2007 actual to forecast and
426 the Company requested costs are based on the calendar year 2008
427 forecasts. He then suggests that if a comparison is appropriate then the
428 actual through March 2008 should be annualized and that would result in
429 a higher amount for calendar 2008.

430

431 **Q. IS THERE ANY MERIT TO MR WILSON'S REBUTTAL?**

432 A. No. According to the response to CCS 4.17, the Company originally
433 estimated the medical costs for the period ending June 2009 based on
434 50% of its 2008 and 50% of its 2009 projections. A follow up request,
435 CCS 9.20, asked if the forecast should be adjusted because 2007 actuals
436 were less than forecasted. The response stated the Company does not
437 believe the estimates for 2008 and 2009 should be revised. The response
438 continued by stating that the 2008 projected expense was based on the
439 first six months of actual claims in 2007. That would mean that the claims
440 for the first six months of 2007 that were used to arrive at a 2008 forecast
441 of \$52,622,225 (see CCS 4.17) would have had to be significantly higher
442 than the last six months of 2007 since the actual for 2007 was
443 \$44,542,675. Based on that apparent significant shift, Mr. Wilson's 2008
444 comparison is not a reasonable comparison since the subsequent months
445 could be significantly different.

446

447 **Q. WHAT ABOUT MR. WILSON'S CONTENTION THAT THE FILING NOW**
448 **REFLECTS THE FORECAST FOR THE CALENDAR YEAR 2008?**

449 A. It means nothing. The supplemental response for CCS 4.17 shows that
450 the \$51,061,859 requested for calendar year 2008 is based on the original
451 calendar year 2008 forecast as discussed above. Since that forecast was
452 based on the first six months of 2007, and the results for the calendar year

2007 was ultimately significantly less than forecasted, then the original 2008 forecast utilized by the Company must be adjusted downward. My recommendation, as shown on CCS Exhibit 6.7 provided with my direct prefiled testimony, does exactly that. The Company's request should be reduced \$7,660,962, the total company expense should be reduced \$5,621,838 and Utah expense should be reduced \$2,403,260.

PENSION ADMINISTRATION COSTS

Q. HAS THE COMPANY PROVIDED ANY ADDITIONAL INFORMATION THAT WOULD CAUSE YOU TO CHANGE YOUR RECOMMENDATIONS TO REDUCE THE ADMINISTRATIVE COSTS FOR PENSIONS?

A. No. The Company initially failed to justify the cost increase requested and the rebuttal testimony of Mr. Wilson still does not provide sufficient justification for the costs requested. Committee request CCS 9.22 asked the Company to explain the significant increase between June 2007 and June 2008. The response simply stated the costs are paid to Hewitt & Associates and then a dollar comparison was made of the costs. No explanation was given. There is no documentation that supports the Company's requested cost. A simple identification of a payee can not be considered supporting evidence.

475 **Q. WHAT ABOUT MR. WILSON'S EXPLANATION FOR THE COST**
476 **INCREASE?**

477 A. Mr. Wilson attempts to justify the increase by stating that the costs are
478 required because of anticipated changes that may be made to the pension
479 plan in the future. The suggested benefits of those changes have not
480 been reflected in the rate request and neither should the unsupported
481 level of costs being requested. Pension revisions have occurred in the
482 past and may occur in the future. As changes occur, the level of costs
483 could fluctuate from year to year which further supports my argument that
484 the costs should be based on an average of the costs over a period of
485 time. Accordingly, the historical average over the three year period that I
486 have recommended for the Test Year amount should be adopted. The
487 result, as shown on CCS Exhibit 6.8, is an adjustment to Pension
488 Administration costs of \$407,744, a reduction of \$299,214 and \$127,910
489 to total Company expense and Utah expense, respectively.

490

491 **OTHER SALARY OVERHEAD BENEFIT**

492 **Q. COMPANY WITNESS ERICH WILSON PROVIDED THREE REASONS**
493 **WHY HE BELIEVES YOUR ADJUSTMENT TO OTHER SALARY**
494 **OVERHEAD BENEFITS SHOULD BE REJECTED. WHAT WERE THE**
495 **REASONS LISTED?**

496 A. In his rebuttal testimony, beginning at page 24, Mr. Wilson identifies the
497 following three items as justification for the increase in other salary

overhead costs: (1) recently implemented random drug and alcohol policy; (2) more detailed “fitness-for-duty” examination of an aging workforce; and (3) a change in the annual benefits open enrollment program. Mr. Wilson also indicates in his rebuttal testimony that the programs are expected to decrease overall costs, but at some expense increases.

Q. DOES MR. WILSON’S REBUTTAL TESTIMONY PROVIDE SUFFICIENT JUSTIFICATION FOR THE SIGNIFICANT COST INCREASE IN THIS AREA?

A. No. Once again the Company, after the fact, has provided an explanation for why costs should be included but it continues to ignore the commensurate benefits, and there is no documented support for the costs requested. The other salary overhead costs in the Base Year were \$1,042,236 and the Test Year costs are forecasted to be \$1,657,947. The limited explanation in Mr. Wilson’s rebuttal testimony does not provide documented support for an increase of more than \$600,000 or 59%. If the Company feels the 59% projected increase in these cost areas is justified, it should have provided documented detail to support the future cost increases. None was provided. I continue to recommend that my adjustment be adopted, which still allows for an increase above the Base Year level, just not to the degree requested by the Company.

RELOCATION COSTS

**Q. SHOULD YOUR ADJUSTMENT TO RELOCATION EXPENSE BE
REJECTED BASED ON COMPANY REBUTTAL TESTIMONY?**

A. No. As stated in my prefiled direct testimony, relocation costs vary from year to year. The Base Year cost of \$4,213,115 exceeds the 2007 calendar year costs and the previous four years of costs. Changes were occurring during the Base Year with the MEHC transition. Absent any supporting documentation from the Company that the Base Year was not impacted by relocations that were required as part of the transition and that the costs will again increase to the Base Year level, there is no support for Mr. Wilson's argument that the Company's request is reasonable. To include the Base Year cost as if it were representative of on-going annual costs would be inappropriate. I continue to recommend that the cost included in the Test Year be based on a five year historical average. As shown on CCS Exhibit 6.10, the Company's relocation expense should be reduced \$472,753 and \$218,519 on a Total Company and Utah basis, respectively.

INJURIES AND DAMAGES

**Q. ARE YOU WILLING TO ACCEPT THE COMPANY'S REVISION TO
YOUR RECOMMENDED ADJUSTMENT TO INSURANCE EXPENSE?**

A. No. As stated in my prefiled direct testimony, the expense for injuries and damages should be based on actual claims and not the result of

544 adjustments to the reserve. Even though the Company's adjustment of
545 \$1,631,951, in its rebuttal testimony is greater than my recommended
546 adjustment of \$1,611,898, I believe that the average should be based on
547 actual claims paid.

548

549 **Q. WHAT ABOUT THE COMPANY'S ARGUMENT THAT THE ACCRUED**
550 **CLAIMS ARE GOVERNED BY FAS 5 RULES?**

551 A. I do not dispute that argument. The Company is required to maintain its
552 books in accordance with accounting standards and accruals can only be
553 made when it is probable that there is a liability and that an estimate can
554 be made. However, it should be pointed out that despite the recording of
555 a liability and an expense under Generally Accepted Accounting
556 Principles, that expense is generally not deductible for income tax
557 purposes. The reason that it is not deductible for tax purposes is because
558 the liability and expense is an estimate that is based on an assumption
559 that the liability and expense will be at that amount. There still remains
560 the possibility that the actual payment of the accrued claim will be
561 different.

562

563 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

564 A. Yes it does.